The Washington Times
November 25, 2007

The 110th's budget challenge

Two rays of bipartisan sunlight appear to be trying to shine through the clouds casting dark shadows on the nation's long-term fiscal horizon. Even if these narrow rays, which involve the creation of bipartisan commissions, manage to break through next year, there is no doubt that partisan budget battles will intensify throughout the 2008 congressional and presidential election campaigns. In fact, a national debate about America's fiscal future — even an intensely partisan debate — would be a worthwhile exercise. However after the election results are final, regardless of which party prevails, it will be necessary for both Republicans and Democrats to address the fiscal future in a responsible manner — if the financial problems bearing down on us are to be avoided.

The Senate Budget Committee held an important hearing on Oct. 31. The panel appearing before the committee included Comptroller General David Walker of the U.S. Government Accountability Office (GAO), who has been spearheading a nationwide Fiscal Wake-up Tour, which began in September 2005 and will continue at least through the 2008 presidential election; Bill Novelli, CEO of AARP, a major lobbying group for the elderly; and Bill Bixby, executive director of the Concord Coalition, a bipartisan budget watchdog group. Here are just a handful of the details revealed either at the hearing or during Mr. Walker's tour or in the government's annual report on the consolidated financial statements for fiscal year 2006:

- A "unified budget" deficit of $318 billion was achieved in 2005 only after the "off-budget" Social Security surplus of $173 billion was applied against an "on-budget" deficit of nearly $500 billion. Even this "on-budget" deficit of nearly half a trillion dollars seriously understated the fiscal situation that year. According to the "Financial Report of the United States Government (2005)," the negative "net operating cost" for fiscal 2005 totaled $760 billion. Among other items, the "net operating cost" concept includes several charges involving increases in retirement liabilities incurred in 2005 that are not part of the "unified budget" deficit: (1) military health and pension benefits, $170 billion; (2) veterans' compensation, $198 billion; and (3) federal civilian-employee health and pension benefits, $62 billion.

- The Federal Accounting Standards Advisory Board, whose promulgations required the government to add the pension and health liabilities cited above to determine the annual "net operating cost," is now discussing whether to include annual accrued costs for Medicare and Social Security. This is serious money.

As of Dec. 31, the trustees for Social Security and Medicare reported that the present value of unfunded liabilities over the next 75 years were as follows: Social Security, $6.8 trillion, including $2 trillion of bonds in the Social Security trust funds, which will have to be redeemed by borrowing or by using general tax revenues (e.g., income-tax receipts); Medicare Part A (hospital insurance), $11.6 trillion; Medicare Part B (outpatient services and doctors' fees), $13.9 trillion; Medicare Part D (prescription drugs), $8.4 trillion. These present-value unfunded liabilities (over 75 years) exceed $40 trillion, which was more than three times the 2006 gross domestic product (GDP).

Here is what the present-value concept means: The federal government would have to deposit $40 trillion today in an interest-bearing account in order to finance over the next 75 years the Social Security and Medicare commitments that exceed the projected revenue

- Of course, the $40 trillion in unfunded liabilities is above and beyond America's official national debt, which now exceeds $9 trillion.

- Between 2005 and 2030, the GAO has estimated that the GDP will increase by 72 percent in real (i.e., inflation-adjusted) dollars, while real spending for Social Security, Medicaid and Medicare over the same period will increase by 147 percent, 166 percent and 331 percent, respectively.

- The GAO simulations "show that balancing the budget in 2040 could require actions as large as cutting total federal spending by 60 percent or raising federal taxes to two times today's level."

To those who say we can "grow our way" out of this problem, the GAO replies: "Closing the current long-term fiscal gap based on reasonable assumptions would require real average annual economic growth in the double-digit range every year for the next 75 years." By comparison, the economy grew at an average annual rate of 3.2 percent during the 1990s.

OVER

• At the Oct. 31 Senate Budget Committee hearing, Mr. Walker reported that the GAO's "preliminary estimate is that the nation's total liabilities and [the present value of its] unfunded commitments [over 75 years] increased during the last [fiscal] year from about $50 trillion to about $53 trillion. By doing nothing," he explained, "they go up $2 [trillion] to $3 trillion a year because of known demographics, rising health care costs and compounding interest costs."

The two rays of bipartisan sunshine take the form of legislative proposals working their way through House and Senate. Both would establish bipartisan commissions to examine long-term options to address the nation's relentlessly evolving entitlement crisis that will reach its peak sometime during the retirement years of the 76 million baby boomers.

On the House side, Reps. Frank Wolf (Virginia Republican) and Jim Cooper (Tennessee Democrat) have already gathered 48 co-sponsors for their SAFE Commission Act, a proposal to create a long-term spending reform commission. The 16-member bipartisan SAFE Commission would include the White House Office of Management and Budget (OMB) director, the Treasury secretary and 14 members appointed by congressional leaders from both parties. No more than four members of Congress could serve on the SAFE Commission. After holding townhall meetings around the country in 2008, the SAFE Commission, having "explicitly put all options on the table," would then "propose a solution that brings spending and revenues into balance over the long term," as Messrs. Wolf and Cooper explained in an Oct. 19 letter to all declared presidential candidates. In 2009, if congressional leaders and/or the president failed to offer their own proposals, the SAFE Commission's plan would automatically come to the House floor. If passed, it would move to the Senate for action.

On the Senate side, Budget Committee Chairman Kent Conrad (North Dakota Democrat) and Ranking Member Judd Gregg (New Hampshire Republican) have introduced the Bipartisan Task Force for Responsible Fiscal Action Act, which would also establish a 16-member commission. The Conrad-Gregg commission would include eight Democrats and eight Republicans. Congressional leaders would designate 14 members of Congress to serve on the commission, which would be chaired by the Treasury secretary and would include one other member of the Bush administration. After a year of townhall meetings and hearings examining all options, the Conrad-Gregg commission would develop a plan detailing how to substantially improve the long-term fiscal balance. To guarantee the solutions are bipartisan, at least three-quarters of the commission, or a minimum of 12 members, would have to approve the plan before it could be submitted to Congress.

The tentative date for submitting the report is Dec. 9, 2008. However, some proponents of the Conrad-Gregg commission have urged that the plan not be submitted until February 2009 so that the incoming administration could offer its own input. The plan would be fast-House and Senate, where supermajorities of 60 percent (again, to ensure bipartisanship) would be needed to pass it in each chamber.

At the end of the Oct. 31 hearing, Mr. Gregg expressed the right attitude: "I look forward to working with both sides of the aisle to advance this important legislation that is so critical to the economic well-being of future generations." Seemingly, the 110th Congress fully appreciates the fiscal clouds hovering over the nation's short- and long-term futures. We encourage both houses to continue moving in the right direction with deliberate bipartisan discourse.